

**US Trade Representative Robert B. Zoellick
Unveiling of US Services Proposal to the WTO
March 31, 2003
Washington, DC**

Zoellick: I appreciate all of you coming. I'm delighted today to be joined by various representatives of the service industries. Including some from the entertainment and telecommunications industries, who I had the pleasure to be with in San Diego and Los Angeles last week. I got a very good sense of some of their cutting-edge work.

As we meet, America and its allies are engaged in a conflict halfway around the world to rid the world of a dangerous dictator, and disarm his regime of its weapons of mass destruction. As President Bush has explained however, our goals go beyond prevailing in the present conflict. What we are seeking to do is to bring freedom and prosperity to a country and a region whose peoples have suffered decades of conflict, oppression, and poverty. So even today, as we fight, we also plan for what comes next: the task of building the future.

An essential part of America's leadership strategy is to try to generate international economic growth, opportunity, and liberty. And since the first days of the Bush Administration, we have worked to restore America's leadership in free trade and economic openness.

Over the past year, the United States has pressed ambitious initiatives to achieve freer global trade in the Doha Development Agenda in the WTO. Last July, we submitted a bold proposal in Geneva to open trade in agriculture by eliminating export subsidies, substantially cutting tariffs, and slashing trade-distorting farm subsidies.

In December, we challenged our trading partners in the WTO to complete 50 years of work in freeing trade in consumer and industrial goods by joining us in a commitment to create a zero-tariff world within ten years. And this morning, I will be presenting our most recent offer to advance the Doha Development Agenda by opening the world's markets for services.

Free trade in services could expand the United States economy by \$450 billion - an income gain of about \$6,400 for the average family of four. And worldwide, it could help lift hundreds of millions of people out of poverty.

Now the services sector is already a vital part of the world economy and its influence will be felt even more in the years ahead. Yet the trading rules for services only date back to the completion of the Uruguay Round in 1994. Based on that round, the United States has already made commitments in services that go well beyond those of most nations, and we've benefitted enormously as a result. America's service companies are incredibly dynamic and they make up the largest sector of our economy.

In the 1950s, services accounted for about 50 percent of total U.S. economic input. But today, service's share of GNP has grown almost two-thirds - 64 percent. Perhaps most importantly, service industries employ more people - eight out of ten Americans - and provide more new jobs

than the rest of the U.S. economy combined.

Over the past two decades, the services sector has added almost 40 million employees across the full range of services: financial professionals, software engineers, health care providers, tour operators, teachers, pilots, and many other professions, including those in the information industry.

America's service sector is open and global in its orientation, with exports of commercial services - about \$276 billion in 2002 - doubling since 1990. In total, U.S. services account for approximately 28 percent of the value of America's exports and nearly a fifth of the world's trade in services. The United States is the global leader in services, but this sector also accounts for a large and growing share of economic output in the developing world.

For poor countries, the services trade offers innovative opportunities to jumpstart growth and development, and to overcome poverty. Services promise poorer countries a chance to develop more quickly by combining a new type of industrial revolution with the information revolution.

The World Bank has reported that services typically account for around 54 percent of GDP in developing countries, and that services are the fastest growing sector in many of the least-developed countries.

During the 1990s, service sector GDP in low-income economies increased at an average annual rate of 5.1 percent, compared with a 2.9 percent average annual growth in services across all countries. And as a group, developing countries accounted for just over 19 percent of total world service exports in 2001-up from 15 percent a decade earlier.

Now this growth in services points to substantial prospective gains from freer trade as nations learn to improve and expand their services businesses while connecting them to regional and to global markets. The World Bank estimates that services liberalization could yield income gains for developing countries about four and a half times greater than gains for these countries from trade liberalization in goods alone.

Services are the essential infrastructure of a modern economy - the bandwidth and digital conveyers of information and communications, knowledge industries, finance, help centers, distribution networks, the pathways that underpin a new kind of business revolution. Services businesses are force multipliers that support and expand opportunities, and increase productivity across other sectors of an economy.

Liberalization of trade in goods is best able to promote development when it's coupled with an open services market. After all, it does no good to eliminate tariffs on American goods or farm products if a country's distribution network is closed or inefficient or blocked due to corruption. A nation could eliminate all of its tariffs tomorrow, for example, but if its trucking, distribution, and retail service networks remain closed to competition, goods could be left rotting on docks or gathering dust in warehouses. And that's why we've asked our trading partners to liberalize in areas such as retailing, distribution, transportation, and express delivery services.

The negative effects of closed service markets extend far beyond U.S. multinationals or big agribusinesses. Small American companies, operating out of storefronts and garages, can't take orders from China or Colombia or other places, if they lack Internet access and reliable telephone service. And that's why we've asked our trading partners to liberalize in areas like telecommunications and e-commerce services.

I met on Saturday, when I was down in Florida, with Meg Whitman of ebay. We discussed how the Internet, and ebay, have become a whole new distribution network for small businesses, not only in the United States but in many other countries. And that's what part of the service agenda is about, helping small businesses access trade. All too often, U.S. companies in key sectors such as energy, telecommunications, and construction cannot do business abroad because their potential customers lack access to loans and capital. A closed financial services sector can draw the life out of a developing economy just as quickly as a tariff, a quota, or an import ban. And that's why we've asked our trading partners to further liberalize their financial services sector.

An expanded services trade would create better jobs in developing countries. Take Ghana, for example, where Affiliated Computer Services-Business Process Solutions employs 150 data-entry clerks who provide remote data-entry services for the Aetna insurance company. Affiliated's employees earn between \$100 and \$200 a month, compared with an average local income of \$32 per month. Free trade in services could multiply such opportunities while cutting costs and increasing the variety of services that are available to consumers around the world.

Since 1947, when the GATT was established, the world has made tremendous progress in reducing barriers to goods. And the result has been a 16-fold increase in global trade that has helped create a 6-fold expansion in the global economy. But progress has been uneven. Until the Uruguay Round led to the creation of the General Agreement on Trade in Services, there were no international rules to govern trade in services, and no framework for moving towards freer trade. The GATS was tremendously important because it implied and applied multinational or multilateral disciplines to services for the first time; and though the commitments it contains are few, it gives us a start.

Now the Doha Development Agenda offers a new opportunity to bring breadth and depth to GATS, and America stands with a great deal to gain as a result. And so do our friends in developing countries and other parts of the world. That's why the United States will continue to press our WTO partners to make meaningful commitments in services, in all sectors, in all modes of supply.

So our services offers today address our trading partners' requests by incorporating new liberalization, filling gaps in the current U.S. services schedule, expanding our current GATS commitments, and offering to undertake new regulatory disciplines if others do the same. Our offer covers numerous sectors and hundreds of services. And we are releasing to the public the full text of our services offer today.

But let me just mention a few examples: for telecommunications, we are offering to schedule GATS commitments on foreign ownership of cable television networks. And allowing non-U.S. satellite service providers to transmit video programming directly to American viewers. We are offering commitments on greatly expanded access for foreign companies to provide information services, such as internet access, directly to U.S. consumers. New entrants in this sector will also help keep the United States on the leading edge of telecommunications technology.

For financial services, we are willing to build on our already substantial GATS commitments for insurance, by giving foreign companies broader access to underwrite large contracts that would otherwise be covered by U.S. companies. We are also offering expanded access for insurance intermediaries, such as brokers and agents, and building on existing initial entry rights for branches. The expansion of choice and competition in this sector will bring real savings to American workers and families.

And for express delivery services, we are offering to put foreign firms on an equal footing with U.S. companies, which we believe can compete with the best.

Let me also say a word on what our offers do not do. Some critics of globalization have claimed falsely that an expansion of commitments under GATS will lead to privatization of essential services like water, primary education, or healthcare. In fact, the United States has not asked countries to privatize these services, nor does the GATS in any way require countries to sell public-sector services. And we are not negotiating U.S. privatization.

The GATS also recognizes the importance of regulation to promote public health and safety. It does not direct countries to weaken such protections. And we are not weakening U.S. regulations for health, safety, and the environment. Now, privatization and selected deregulation can be immensely beneficial to a nation's economy, but GATS is not the appropriate vehicle to pursue such reforms.

The United States is seeking to widen the circle of free trade. Our services offers are a challenge to America's trading partners, we hope they will join us in opening these markets to exchange, competition, and innovation.

Services are not tangible; you can't hold them or touch them. But they are critical to the future of the global economy, and to the individual futures of millions of people. Our challenge now is to create a world where people everywhere can use their talents, their skills, and ambition to build better lives for themselves and their families through trade.

Thank you, I'd be pleased to take your questions.

Q - unintelligible

Zoellick: We have had a strong voice of support from our two key chairman, Chairman Thomas of the Ways and Means Committee and Chairman Grassley of the Finance Committee, about the need to resolve this issue. I was pleased when my counterpart Pascal Lamy was here a few weeks

ago. He emphasized, as we have, that the United States needs to come into compliance with this rule.

We benefit from the WTO ruling system, after having had our case and had our case appealed, and what he stressed, was that the European focus is not on retaliation but for United States to come to the into compliance. In addition to meeting with me, he also met with members of the Hill who emphasized the importance of this. Now we know this is not an easy issue, and we have had discussions with Republicans and Democrats about this. Some of them have taken different approaches. It has come up as a subject in my hearing.

But I am pleased that as the months have gone on for the last year, I find an increasing recognition of the need for the United States to take action. And I hope that you will see action over the course of the coming months. Right now obviously, the Congress has got it's hands full with other major tax legislation. But I am also pleased that as I talk to more members of the U.S. business community - this actually came up in my trip in California - I think many of them are actually trying to recognize that we will have to come into compliance and how we try to change the tax laws to meet their needs and move forward.

So, this is, I think, another step in the process and the administration's point of view is clear, and I frankly appreciate the leadership that Chairman Thomas and Chairman Grassley have shown as we move forward.

We've got a new member here, Mark Drajen from Bloomberg, so welcome.

Q - The WTO has missed the agriculture deadline. Are you concerned that by missing that the Doha Round is already on the ropes at this early date?

Zoellick - Well, having some sense that this may be a question you'd ask, I'll just mention that Secretary Veneman and I prepared a statement that I think we either have here in a release that talks about this. But let me just hit the high points for you.

When we started these negotiations in November of 2001, we knew they wouldn't be easy. And we surely knew that they would have ups and downs. The United States focus from the start has been on trying to use these negotiations to make a serious step forward in global trade liberalization. So we've put forward three bold proposals, in agriculture, in goods, and now we're pressing forward in services. And this was a conscious effort because we felt it as appropriate for the United States to play a leadership role.

Now we and everybody else around the world has known that agriculture has been and will be at the heart of these negotiations. And I think the key question now will be whether the members of the WTO will step up to the challenge of serious agricultural reform. A goal that we all agreed on as part of the Doha mandate.

I believe Chairman Harbinson, whose the head of the negotiating committee in agriculture should be commended for his leadership in trying to move the process forward. We're not completely

satisfied with his text, and we've raised a number of the concerns that we have. But I do believe it shows there are many countries that are interested in taking the reform objective seriously and trying to move it forward.

It's also shown that there are a number of countries that are holding back. Of course I'm disappointed but I'm not surprised. I also dealt with this process during the Uruguay round. I personally believe there are still a number of win-win possibilities here. And let me share one that I've discussed with a number of European colleagues. The European Commission has put forward proposals for reform of the common agricultural policy and these, as the European commissioners have mentioned, are in Europe's own interest as they go through the process of enlargement if they try to re-orient their agricultural policy to deal with rural and other environmental issues.

But, frankly, there's a second benefit if they're able to move forward these proposals during the course of the summer, as they've suggested they want to try to do because it would give the European Commission negotiators much more flexibility in moving forward the Doha mandate. And in doing so, I think it's a double benefit, it helps the European Union internally, but it would help the trade negotiations for other European businesses, for developing countries, for the world economy and the European economy. Now, I'm not suggesting that the CAP reform proposals are sufficient, but they are definitely necessary because, if they were pursued, they would make a big difference in terms of the subsidies issue.

Now, there are other countries, Japan and others, that I hope will join the process of reform, and right now they're being held back because they are trying to preserve tariffs in just one or two key product areas, sometimes of a degree of five hundred to a thousand percent. And we need to find a path forward. So that these extraordinary tariffs don't hold back negotiations.

Developing countries also have a very strong interest in these negotiations. There is enormous economic possibility and if you look at the World Bank studies, enormous economic benefit for expanding the south-south trade from reducing tariffs. And frankly, most of the analyses that have been done on issues such as food security suggest that more open agricultural markets would help those countries deal with those problems as well.

Now, having said this, all of us have political difficulties, there's no doubt about that. And my view, is that we need to try to help one another find our way towards constructive solutions. At the same time, this is a once-in-a-generation opportunity to reform the world agricultural trade and we shouldn't settle for insignificant solutions. We shouldn't lose our commitment. We have to be patient, but at the same time we have to be determined and concentrated. So our approach has been to continue to work across the Doha Development Agenda. Just as I'm doing here by moving forward the services agenda, and as we've tried to do in the goods agenda. Because we want to keep exploring ways to bring parties together in the process by trying to match interests as we try to move to higher common ground in the overall effort. And I hope as we do so, some of the key participants as time goes on, as I mentioned in the case of Europe, might be able to have more flexibility to lower barriers.

So my focus now is really to be working towards the Cancun process. And in the area of agriculture, to support the Chair's efforts to try to find basis of convergence as a result that delivers substantial reform. But our work is not limited to agriculture so the instructions that I've been giving to my people is that they need to intensify our overall work.

And bottom line, I'm a realist and an optimist about this. I've seen trade negotiations go through these phases before as I said, I was part of the Uruguay round process. But I also recognize, we have some extremely ambitious and important goals. And anytime you try to reach a serious, significant goal for what now involves 145 countries, it's going to involve heavy lifting. And the heaviest lifting will be on the shoulders of the major economies. And that includes the United States, it certainly includes the European Union, I hope it includes Japan as well. And it also includes some sense of vision of what this does for the world's economy.

So, right now, one of my deputies, my deputy for agriculture, last week, Al Johnson, was in Geneva. My deputy Peter Allgeier is in Geneva this week. I'm having ongoing discussions with various countries including Commissioner Lamy. So I believe we can move this process forward, and it's not the first time a deadline has been missed and it won't be the last.

Q - Rachel Gordon with the Citizen's Trade Campaign. The offer that you're releasing today on services, is this the complete offer for the duration of this round? Or is there a possibility that additional sectors will be offered and if so does that possibility include energy or electricity?

Zoellick: I think, we showed a chart, there's some hard copies. In the past in the area of energy, we covered a number of these topics, but now we are trying to cover them as a sector, in terms of energy services. So you'll see, and this will be up on our website either today or in a matter of days you can look at the aspects of that. But, the way the negotiating process works is that, this is our offer, this is what we intend to put forward. What we've received and it will be shared with many others, is some of the requests of other countries as you go forward.

We've made very clear what we will not negotiate, related to privatization or services. And in terms of changing the regulatory issues for health and safety and environment. But of course this is a negotiating process, that we'll move forward towards. But this is our offer.

Q - Doug Palmer with Reuters. The impasse on agriculture and the international sore feelings caused by the war in Iraq has led people to increasingly question whether the WTO negotiations can come to a conclusion by the current targeted January 2005. Are you at all concerned that it is becoming more unlikely to reach that deadline? And I've even heard suggestions that maybe the Cancun meetings should be postponed. I just wondered what your thoughts are on that.

Zoellick: Well Doug, as I said, I'm a realist and an optimist. As a realist, anytime you set an ambitious course, particularly in a large negotiation like this, you're going to have these twists and turns and ups and downs. And I've encountered this a number of times in my government career, in my private sector experience as well, in the Uruguay round, and even in the smaller agreements we have, where you have more control over the process. So, I frankly don't make too much of that. Second, you raised a point Doug, that I've heard from a number that frankly, I just

disagree with which is the notion that war and conflict leads to impediments. Keep in mind, the issues that we're struggling with are tough issues, like agriculture, but frankly, they predated the war, in fact they predated the first Gulf war and frankly, they were during the Cold War. So they've got a long history and frankly, they will have a long future, because these are difficult problems that we are trying to work our way through.

And so, we do have challenges to overcome, but I don't think [unintelligible] exacerbated or created by the conflict. In fact, just to recall a little history here, it was after the first Gulf War that we completed NAFTA and we had the Blair House agreement on agriculture in 92. And of course it was after September 11, at another time of security challenge that some people thought would preoccupy the world, that we launched the Doha negotiation. So, I have honestly had no sense at all, from my trade partners, additional degree of conflict or tension. Other than a recognition that this probably makes it all the more important to move the international economy forward. And certainly, you've seen through my statements and those of Commissioner Lamy, we understand the common interest the United States and Europe have in our transatlantic economy and the global economy. So if anything, it probably increases our incentive to do the best things we can to try to overcome these problems.

What I don't want to dismiss is the fact that we've got some real tough negotiating issues. And I've sort of talked about some of those and it's not easy when you have 145 economies. But I don't see international security issues as impeding on that in a negative way and in fact, it kind of increases the incentive overall to move forward.

Speaking for the United States on this, we're committed. Going to the other points of your question, Doug, I've been working over the past months, knowing that we were going to have some of these difficulties on agriculture to try to see some ideas about how we could minimize some of the differences and said today for example how I think that the European Commission's proposals for CAP reform, which are in its own interest, would clearly be very important in giving additional freedom to move forward. It's interesting, some in Europe say, "Oh, we have to pay twice." I look at this as the exact opposite, I think you get at least two benefits for one move. Because given the enlargement of the European Union, and the other objectives, Europe's going to have to take these courses. And it would help in the global trade realm.

But at the same time, we are not among those that say, "Oh well, since agriculture is stuck, we should stop everything else." Quite to the contrary, we feel as a leader in the international system, we've got to try, as we did from the start, to be aggressive on all fronts. And while we're putting our focus on market access and agriculture goods and services, we've been willing to discuss the full range of topics that people have. Some of them are sensitive to us, some of them are difficult, but we feel that's our role as a major player and we're not stepping back.

As for Cancun, I saw some report about that, but that's the first I've heard, and I have no indication of that, and I certainly wouldn't support it. Because we use these meetings in part to try to push people together further along the way. And if we have success in Cancun, then I do believe we can stick to this deadline. It's not easy, there's no doubt about it, but is it possible? Yes, I mean I've had enough experience with different public sector roles to know these things

are possible if you bring people together.

Q - Cory Henry, Inside US Trade. In the U.S. services offer is there a commitment to bind openings in legal and insurance provisions that the States have made? Is the US offering to bind those commitments that the States have undertaken and if so, has there been a discussion between USTR and States in terms of doing this, and how many have agreed to bind such openings?

Zoellick: For the best and most accurate answer, we're going to publish the whole offer, I think it may be on the website today. So you can delve through it yourself. But your question actually, provides a good opportunity to try to give a little sense of how this is done.

Under our statutory system, we have advisory committees including State and local officials, but we've gone far beyond that and we deal with various associations of State and local governments. And frankly have points of contacts with all fifty States. And have presented to them, the information, we've tried to be very open and transparent on the summaries of other's proposals. And then similarly, we ask for information from them of changes that they have made in their own regulations. And so in some ways, this is where services is a little different from some of the other sectors. You'll see that the United States started out with a very open services market, which came from the Uruguay round. But we've had changes at both the federal level and the state level in the intervening periods. So for example, in financial services you mentioned insurance, the Graham, Leach, Bliley legislation opens a whole new avenue for potential commitments in an offer. And similarly, there's been changes at the state and local level.

So I know in the insurance area, that we've incorporated some of those in the offer and I mentioned some of that in changes in [unintelligible] and others. But I just don't recall for sure on the professional legal services.

Q - Kathy Schaulk, National Public Radio. Would you talk a little about the Jordan free trade agreement and negotiations with Morocco, and your vision of the ways that liberalizing trade could help to alleviate some of the economic problems and frustrations that are pervasive in that part of the world.

Zoellick: Sure, well as my opening comments suggested, while we're understandably focused on a war right now, I had a conversation with the President about eight or nine days ago when I was reviewing various trade issues and I can assure you that he is also focusing on what comes after the successful completion of this war. And he gave a speech at the American Enterprise Institute not too long ago where he talked about some of his ideas from everything from the Middle East peace process - you heard Secretary Powell talk about that last night - but also economic open opportunity.

The Jordan free trade agreement, which we passed through the Congress in 2001, was one first very important step. Now many people will say, Jordan is a small country, but its demonstration affect has been significant because during my tenure, I've seen other countries, Morocco and others in the Maghreb, Egypt, others in the Gulf, can see the job creation and the investment that

this has been drawing, and say, how do we move towards that? So our next step was Morocco, and we actually had negotiations last week in Geneva with the Morocco team. We're going to do our best to try to complete that by the end of this year. And one of the encouraging signs is that the number of the Arab economies, which frankly have been closed, not that efficient, have started to move towards greater openness. And so we've had this discussion with the Egyptians, which is often seen as the heart of the Arab world, we've had this discussion with Bahrain under Trade and Investment Framework Agreements. And Bahrain is I think is leading the way for others in the Gulf region.

And then we also have, frankly, I had a very good session with the Saudi Minister of Commerce, not long ago, about a week or two ago. Saudi Arabia has been sort of hot and cold on WTO accession. And so, frankly we hope that we can move forward a pattern here where just as we were trying to do with Southeast Asia and other regions of the world, that we try to combine our aid program with trade and openness and what we try to do is foster opportunity, hope, and development in the Arab and Muslim world, because our long term success clearly depends on trying to encourage those who live to create rather than die to destroy.

Q - Yoichi, Kyoto News. Do you have any concerns that the war with Iraq will have negative impact when world leaders will have to make difficult decisions about politically sensitive trade areas?

Zoellick: I partly think I addressed this with Doug Palmer's question. But I really don't. In fact I honestly believe it will work in the opposite direction. I believe that most countries are interested more than ever in terms of trying to strengthen the international economy and they realize that in their own self interest, they want to promote growth in their development prospects. And so, in the past weeks as we've been coming to the issue of going to war, I've had a number of developing countries coming to my office trying to seek free trade agreements.

But also in the global negotiations, I said, there's a lot of sensitivity about the U.S.- European relationship. Well, Commissioner Lamy and I are working very hard on these issues, and we have, and our public statements reflect that. Now, that doesn't mean we don't have problems, but in reality, these problems existed before war, and during war, and their going to exist after war. And the question is whether we can overcome those to try to move forward the overall international economy.

As I said, in the case of Japan: Japan has been a supporter of the United States as part of the coalition. Japan's economy, I think has only grown about 0.5 percent since 1998, so it needs some economic rejuvenation. When I was in Tokyo not long ago, I talked to a large number of members of the business sector about how openness and liberalization in the Doha agenda would help them. I found a lot of them in agreement. And frankly, this is why I hope we can urge Japan to take on what I know is a difficult political issue, dealing with some of its agricultural interests, but these represent about 2 percent of Japan's economy and about 1.8 percent of their population, many of whom are working part time.

So Japan is a country that benefits so much from the international trading system, could really

play an important role, and we need to work with Japan to do that, because Japan also has interests that we want to try to respond to.

So I hope that we can actually make this a catalytic moment. I don't mean to be Pollyannaish about it because I've been through too many of these, it won't happen just as a turnaround. But if anything, I sense among trade ministers even more of a sense that we need to try to be creative in finding ways forward and that's what the United States will seek to do.

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